

Muted show; H2 to be better! ...

About the stock: NCC is one of the leading construction companies with presence across varied verticals such as buildings, roads, water, mining and electrical. Standalone order book is at ₹ 48,028 crore, 2.5x TTM book to bill.

- Well-diversified order backlog, robust execution capabilities, and strong focus on working capital to be key over next few years.

Q2FY25 Performance: NCC's reported revenue for Q2FY25 at ₹ 4445 crore was up 3.8% YoY. **On adjusted basis, revenue was down 1.5% YoY, as base quarter had certain claims and charges. We note the execution was impacted by heavy rainfall and subdued turnover in water and smart metering segments.** EBITDA was reported at ₹ 401 crore, down 16% YoY on adjusted basis along with margins at 9%, down 160 bps YoY. Reported PAT at ₹ 160.5 crore was up 132% YoY, however on adjusted basis it was down 26.4% YoY

Investment Rationale:

- Healthy order book; Execution to pick up in H2:** NCC has a standalone order book of ₹ 48,028 crore, 2.5x TTM book to bill. The total order inflow for H1 FY25 stood at ₹5168 crore and received orders worth ₹ 3496 crore in October, 2024. Furthermore, it has L1 orders (wherein it is lowest bidder) of ₹ 9200 crore. We note that apart from overall opportunity, the company also indicated that it expects improved order inflows prospects from AP and Bihar. The company has maintained its guidance of order booking of ~₹ 20,000 - 22,000 crore. The topline growth guidance was maintained at ~15% for FY25, implying accelerated execution in H2FY25. Given the robust orderbook, we expect healthy revenue CAGR of ~15% over FY24-27E to ₹ 28,022 crore.
- Margin guidance intact:** The EBITDA margin guidance was maintained at 9.5%-10%, albeit likely at lower end of the band, amidst the competitive bidding scenario and with company focussing on revenue growth momentum in FY25 over margins. We bake in EBITDA margins at 9.5%/10%/10.5% in FY25/FY26/FY27 vs. 9% in FY24 (~10% on adjusted basis). Healthy topline growth coupled with stable finance cost is likely to drive ~25.5% earnings CAGR over FY24-27E. The strong earnings momentum will translate into improvement in return ratios, with RoE's likely to expand to 16.1% in FY27 vs. 12.3% in FY24.

Rating and Target Price

- NCC is a key beneficiary of the tailwinds in the buildings, roads, water, mining and electrical segments. Given the strong order book visibility, and improving balance sheet strength, it is poised for a healthy growth ahead.
- We value NCC at **₹ 400, at 17x multiple on the average of FY26 and FY27 EPS, and maintain our BUY rating on the stock**



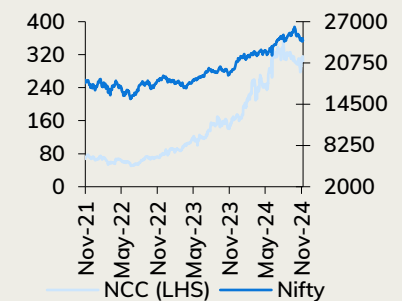
Particulars

Particular	₹ crore
Market Capitalization	18,208
Total Debt FY24	1,005
Cash FY24	1,044
EV	18,169
52 week H/L (₹)	364 / 137
Equity capital	125.6
Face value	2.0

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoters	22.0	22.0	22.0	22.0
DII	10.5	10.6	11.4	12.3
FII	23.9	27.3	23.7	20.9
Other	43.6	40.0	43.0	44.8

Price Chart



Key risks

- Lower than expected order inflows
- Heightened competitive intensity impacting margins

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Key Financial Summary

₹ crore	FY22	FY23	FY24E	5 year CAGR (FY19-24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
Net Sales	9,930	13,351	18,314	8.7%	21,053	24,209	28,022	15.2%
EBITDA	996	1,343	1,648	3.0%	2,000	2,421	2,929	21.1%
EBITDA Margin (%)	10.0	10.1	9.0		9.5	10.0	10.5	
Adj. PAT	344	569	837	8.2%	1,019	1,324	1,655	25.5%
Adj. EPS (₹)	5.6	9.1	10.1		16.2	21.1	26.4	
P/E (x)	38.3	34.0	30.6		19.0	14.6	11.7	
EV/EBITDA(x)	19.5	14.2	11.4		9.4	7.6	6.0	
RoNW (%)	5.9	9.0	12.3		13.3	15.0	16.1	
RoCE (%)	13.3	17.9	20.1		22.0	25.1	26.2	

Performance highlights and outlook

- **Order Book and Order Inflow** - The total order inflow for H1 FY25 stood at ₹5168 crore, with ₹408 crore received in Q1 and ₹4760 crore worth of orders received in Q2. It also received orders worth ₹ 3496 crore in October, 2024. The orderbook as of Q2 FY25 on a consolidated basis stood at ₹52370 crore and the standalone order book stood at ₹48027 crore, 2.5x TTM book to Bill. Furthermore, it has L1 orders (wherein it is lowest bidder) of ₹ 9200 crore. The company has a prospective bidding pipeline of ₹2.10 lakh crore for the year.
- **Guidance** – The company maintained the order inflow guidance of about ~₹ 20,000-22,000 crore, given the strong pipeline of orders. The company has already achieved 41% of the lower band of order book guidance by H1, with a total order book of ₹8,256 crore. The company is confident of achieving its revenue growth guidance of 15% and upwards despite a slower H1 due to unprecedented rains and slower execution in water segment and smart metering projects. The management expressed confidence in achieving its guidance, citing a healthy pipeline of future prospects and robust order book. It is sticking to its EBITDA margin guidance of 9.5%-10%, albeit likely at lower end of the band.
- **Jal Jeevan Missions project** - The total orders from Jal Jeevan mission was originally ~₹ 16900 crore, the work executed till Q2 FY25 stood at ₹11,137 crore. the outstanding order book for JJM projects as of Q2 FY25 stood at ₹5467 crore. The revenue generated from the segment stood at ₹1120 crore in Q2 FY25, the total turnover in H1 stood at ₹2332 crore (Q1 turnover ~1212 crore). There has been a shortfall in turnover in the current quarter due to unprecedented rains in UP along with elections. The company expects majority of the work to be completed by March 2025 with a fraction of the left-over work to be completed by June 2025.
- **Andhra Pradesh Prospects** – Given the change in state government, it expects the revival of capital city projects in AP as well pending payments to materialise. The company has total receivables of ~₹ 500-550 crore from AP, the company has received nearly ₹220 crore over the last two months from the AP government towards the running projects. It expects to receive a total outstanding amount to the tune of ₹150 crore from the AP government towards the capital city projects. The receipts are expected before March 2025
- **SPV smart meters project** – Recall, the company had secured three Smart Meters projects valued close to ₹ 8000 crore, out of the three projects, the two projects in Maharashtra are worth approximately ₹ 5700 crore, and the third project is in the state of Bihar which is value at about ₹2300 crore.
 - The company had commenced the trials for the Bihar project having already installed 2,00,000 meters showcasing good progress in the state, once the sample testing is done, the company expects to receive the green signal from the client to start rolling out the project.
 - As for Maharashtra, execution has slowed down owing to the state elections with government deferring the projects for a few months. The management is hoping for execution to pick up with the formation of the new government.
- **NCC Vizag** – NCC has received ₹ 52 crore in FY24 and another ₹ 67 crore in May '24, aggregating to ₹ 119 crore. Out of the balance ₹33 crore receivables, the company has received ₹23 crore. With the last ₹10 crore pending, the company has received the full payment for the equity portion of the project.
- **Debt** –. At the end of Q2, total debt stood at ₹1733 crore with net debt at ₹1624 crore. There has been a reduction in debt levels by ₹87 crore

compared to previous quarter. The company expects the gross debt to come down to ₹ 500 crore by FY25. The debt-to-equity ratio stood at 0.25x as of Q2 vs. 0.26x at the end of Q1.

- **Capex** – The capex for Q2 FY25 stood at ₹143 crore (Q1 capex ~₹51 crore). Management had earlier indicated a capex guidance of ₹250 crore for FY25 vs. ₹285 crore spent in FY24.
- **Working Capital** – Working capital stood at ₹4987 crore as of Q2 FY25 (27% of the turnover) working capital days stood at 87 days after excluding cash and margin money deposits

Exhibit 1: Quarter Performance

	Q2FY25	Q2FY24 Adj	YoY (%)	Q1FY25	QoQ(%)	Comments
Net Sales	4,445	4,511	-1.5	4,713	-5.7	
Other Income	35	28	23.2	34	2.8	
Total Construction Expenses	1,989	2,041	-2.5	2,300	-13.5	
Employee cost	189	152	24.2	176	7.1	
Other expenditure	1,866	1,812	3.0	1,797	3.8	
EBITDA	401	478	-16.1	440	-8.7	
EBITDA Margin (%)	9.0	10.6	-157 bps	9.3	-30 bps	
Depreciation	54	53	2.6	53	1.4	
Interest	165	154	7.0	153	7.4	
Exceptional items	0	0	NA	0	0.0	
PBT	218	101	116.0	267	-18.5	
Taxes	57	32	80.9	67	-14.1	
Adjusted PAT	161	218	-26.4	201	-20.0	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

₹ crore	FY24	FY25E	FY26E	FY27E
Net Sales	18,314	21,053	24,209	28,022
Other Income	124	143	171	171
Total revenues	18,439	21,196	24,381	28,193
RM Exp.	7,277	8,253	9,369	10,844
Employee exp	641	737	847	981
Constr. exp	8,448	9,684	11,136	12,764
Other Exp	301	379	436	504
Total op exp.	16,666	19,053	21,788	25,093
EBITDA	1,648	2,000	2,421	2,929
Interest	595	555	580	626
Depreciation	209	225	243	261
PBT	911	1,363	1,770	2,212
Taxes	280	343	446	558
PAT	631	1,019	1,324	1,655
Adjusted PAT	837	1,019	1,324	1,655
EPS	10.1	16.2	21.1	26.4

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore

₹ crore	FY24	FY25E	FY26E	FY27E
Profit after Tax	631	1,019	1,324	1,655
Depreciation	209	225	243	261
Prov for Taxes	280	343	446	558
CF before wc changes	1,198	1,685	2,133	2,590
Change in WC	130	(889)	(652)	(787)
Taxes Paid	(291)	(343)	(446)	(558)
Net CF from op. activities	960	355	915	1,129
(Purchase)/Sale of FA	(256)	(250)	(250)	(250)
(Purchase)/Sale of Inv.	(190)	-	-	-
Net CF from inv. activities	(446)	(250)	(250)	(250)
Change in Debt	25	95	(500)	-
Other	-	-	-	-
Net CF from fin. activities	(115)	(62)	(688)	(188)
Net Cash flow	399	43	(24)	691
Opening Cash	646	1,044	1,087	1,064
Closing Cash	1,044	1,087	1,064	1,755

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet ₹ crore

₹ crore	FY24	FY25E	FY26E	FY27E
Equity Capital	126	126	126	126
Reserve and Surplus	6,687	7,549	8,685	10,151
Shareholders funds	6,813	7,675	8,810	10,277
Total Debt	1,005	1,100	600	600
Other Non-curr. Liab.	-	-	-	-
Def.Tax Liability	(59)	(59)	(59)	(59)
Source of Funds	7,759	8,716	9,352	10,818
Gross Block	2,712	2,962	3,212	3,462
Less: Acc. Dep	1,537	1,762	2,004	2,266
Net Block	1,175	1,200	1,208	1,196
Capital WIP	40	40	40	40
Total Fixed Assets	1,215	1,240	1,247	1,236
Investments	1,286	1,286	1,286	1,286
Inventory	1,434	1,673	1,923	2,226
Sundry Debtors	2,791	3,461	3,980	4,606
Loans & Advances	369	519	597	691
Cash & Bank	1,044	1,087	1,064	1,755
Other Current Assets	8,382	9,635	11,079	12,824
Total Current Assets	14,019	16,375	18,643	22,103
Trade Payable	6,117	7,032	8,086	9,359
Provisions	150	173	199	230
Other Curr.Liabilities	3,251	3,737	4,297	4,974
Total Curr. Liabilities	9,518	10,942	12,582	14,563
Net Current Assets	4,501	5,433	6,061	7,539

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

	FY24	FY25E	FY26E	FY27E
Per Share Data				
Reported EPS	10.1	16.2	21.1	26.4
Cash EPS	13.4	19.8	24.9	30.5
BVPS	108.5	122.2	140.3	163.7
Operating Ratios				
EBITDA / Net Sales	9.0	9.5	10.0	10.5
PAT / Net Sales	4.6	4.8	5.5	5.9
Return Ratios				
RoE	12.3	13.3	15.0	16.1
RoCE	20.1	22.0	25.1	26.2
RoIC	21.6	23.4	26.4	29.6
Valuation Ratios				
EV / EBITDA	11.4	9.4	7.6	6.0
P/E	30.6	19.0	14.6	11.7
EV / Net Sales	1.0	0.9	0.8	0.6
Market Cap / Sales	1.0	0.9	0.8	0.7
Price to Book Value	2.8	2.5	2.2	1.9
Turnover Ratios				
Asset turnover	2.4	2.4	2.6	2.6
Debtors Turnover Ratio	4.5	6.6	6.1	6.1
Creditors Turnover Rati	2.8	3.0	3.0	3.0
Solvency Ratios				
Net Debt / Equity	(0.0)	0.0	(0.1)	(0.1)
Current Ratio	1.4	1.4	1.4	1.4
Quick Ratio	1.2	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

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